

Message Text

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ACTION EB-08

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EB/IFD FOR WINDER, TREASURY FOR PELIKAN, AID FOR BUTLER

E.O. 11652: N/A

TAGS: UNCTAD

SUBJECT: UNCTAD SECRETARY GENERAL SETS OUR VIEWS ON

TDB MINISTERIAL

1. IN STATEMENT OPENING SENIOR OFFICIALS MEETING,
SECRETARY GENERAL COREA EMPHASIZED THE IMPORTANCE OF
"DEBT" IN NORTH/SOUTH DIALOGUE. HE CONSIDERS
NEGOTIATIONS AT THE STAGE WHERE "POLITICAL DECISIONS"
IN DEVELOPED COUNTRIES ARE REQUIRED. COREA SEES THE
MARCH MINISTERIAL AS THE TURNING POINT ON THE DEBT ISSUE,
NOTING THAT A LACK OF PROGRESS IN MARCH WOULD GENERATE
A KEEN SENSE OF FRUSTRATION AMONG THE LDCS. GIVEN THE
PROXIMITY OF THE MINISTERIAL, COREA'S VIEWS ARE REPORTED
IN MORE DETAIL THAN WOULD OTHERWISE BE THE CASE.

2. IN COREA'S ASSESSMENT, WE ALREADY HAVE BROAD AGREE-
MENT ON FIVE KEY ASPECTS OF THE ISSUE:

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(A) THE PROBLEM IS ATTRIBUTABLE TO FACTORS EXTERNAL TO
THE DEBTOR COUNTRIES, I.E., GLOBAL INFLATION AND
RECESSION;

(B) BALANCE OF PAYMENTS OF DEFICIT COUNTRIES SHOULD BE
FINANCED RATHER THAN REDUCED BY DEFLATIONARY POLICIES;

(C) THE LLDC'S REQUIRE SPECIAL RESOURCE TRANSFERS;

(D) MIDDLE INCOME COUNTRIES REQUIRE IMPROVED CAPITAL

MARKET ACCESS AS WELL AS A MECHANISM TO AVOID "BUNCHING" PROBLEMS; AND

(E) DEBT REORGANIZATIONS SHOULD SAFEGUARD BOTH LEGITIMATE CREDITOR INTERESTS AND THE DEVELOPMENT OBJECTIVES OF DEBTOR COUNTRIES.

3. COREA REITERATED HIS VIEW, EXPRESSED EARLIER AT THE DECEMBER DEBT EXPERTS MEETING, THAT THERE WERE THREE BASIC ISSUES FACING THE MINISTERS IN MARCH.

(A) THE NEED FOR INTERNATIONAL ACTION ON OFFICIAL DEBT,
(B) OFFICIAL MEASURES TO RESTRUCTURE THE MATURITIES OF PRIVATE FLOWS, AND

(C) INTERNATIONAL GUIDELINES FOR FUTURE DEBT RE-ORGANIZATION.

4. ON OFFICIAL DEBT, COREA CALLED FOR AGREEMENT ALONG THE LINES OF THE RECENT SWEDISH PROPOSAL FOR CANCELLATION OF ODA DEBT OWED BY THE POOREST LDC'S. TO ACCOMPLISH THIS, HE RECOMMENDED RETROACTIVE ADJUSTMENT IN THE TERMS OF PAST ODA LENDING CONVERTING THEM EITHER INTO GRANTS (FOR THE LLDCS) OR INTO LOANS ON ODA TERMS (FOR OTHER MSAS). SUCH RETROACTIVE ADJUSTMENT WOULD PROVIDE THE LDC'S WITH A TOTAL BENEFIT OF \$600 MILLION OVER THE NEXT FIVE YEARS. COREA SUGGESTED THAT BURDEN SHARING ARRANGEMENTS COULD BE ESTABLISHED FAVORING DONORS WHO HAD PROVIDED A LARGE PORTION OF PAST LENDING ON A LIMITED OFFICIAL USE

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GRANT BASIS.

5. ON PRIVATE DEBT, COREA STRESSED IT WAS THE STRUCTURE NOT THE SIZE OF COMMERCIAL DEBT WHICH CONSTITUTED THE PRESENT PROBLEM. WHILE EFFORTS TO IMPROVE LDC ACCESS TO BOND MARKETS SHOULD BE TAKEN, THESE WERE MEASURES RELATING TO LONGER-TERM BENEFITS AND DID NOT IMPACT ON CURRENT SITUATION WHERE LDC'S HAD BORROWED ON SHORT-TERM TO FINANCE EITHER LONG-TERM INVESTMENT OR LONG-TERM ADJUSTMENT. TO REMEDY THIS INCONSISTENCY COREA ADVOCATED A MULTILATERAL REFINANCING FACILITY. IN THIS CONTEXT, COREA STATED THAT WHILE IMF FINANCING HAD MADE A POSITIVE CONTRIBUTION, THE SCALE OF ADJUSTMENT REQUIRED SUBSTANTIALLY MORE RESOURCES THAN COULD BE PROVIDED BY THE IMF.

6. ON INTERNATIONAL GUIDELINES FOR FUTURE DEBT RE-ORGANIZATION, COREA NOTED THE "COMMON GROUND" WHICH HE FELT EXISTED BETWEEN THE POSITIONS OF GROUP B AND THE GROUP OF 77. ONLY THE UNWILLINGNESS OF SOME COUNTRIES TO NEGOTIATE ON GUIDELINES AT THE DEBT EXPERTS' MEETINGS HAD PREVENTED FURTHER PROGRESS ON SUCH GUIDELINES.

COREA HOPED "BROAD AGREEMENT" WOULD BE POSSIBLE AT THE
MINISTERIAL, ON THIS ISSUE, NOTING THAT THE DETAILS
OF ANY SUCH AGREEMENT COULD BE SUBSEQUENTLY WORKED OUT
IN AN "APPROPRIATE BODY". VANDEN HEUVEL

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